




# ASSOCIATION RESERVES<sup>®</sup>


*Planning For The Inevitable*




# Fundamentals of Reserves

*Purpose, Process, and Planning for Success*

 ASSOCIATION  
RESERVES™



PROPERTY NAME  
Anywhere, USA

 Report #: 12345-6  
Beginning: January 1  
Expires: December 31

FULL  
RESERVE STUDY

[www.reservestudy.com](http://www.reservestudy.com) Serving the Nation

# Elon Goldman, RS



- President of Association Reserves – Texas
- Started with Association Reserves in 2015
- Opened Texas office in 2018
- RS #358



# Association Reserves

*Texas*

- Est. 2018
- Serve the entire state of Texas, Oklahoma, and Arkansas
- Complete ~ 250 Reserve Studies/year



# Association Reserves

*National*

- Established in 1986
- Completed 90,000+ Reserve Studies
- Complete ~ 9,000 Reserve Studies/year
- 19 Regional Offices
- 36 Staffed Reserve Specialists
- Wrote the first book on Reserve Studies







# Things you will learn in this presentation:

## Part I

- Reserve Study Basics
  - What is a Reserve Study?
  - What Components do we Include?
  - Reserve Fund Strength

## Part II

- Consequences of Underfunding

## Part III

- Trends
  - Legislation
  - Best Practices



# Part I

## Reserve Study Basics





# The Challenge

## Living in a Community!



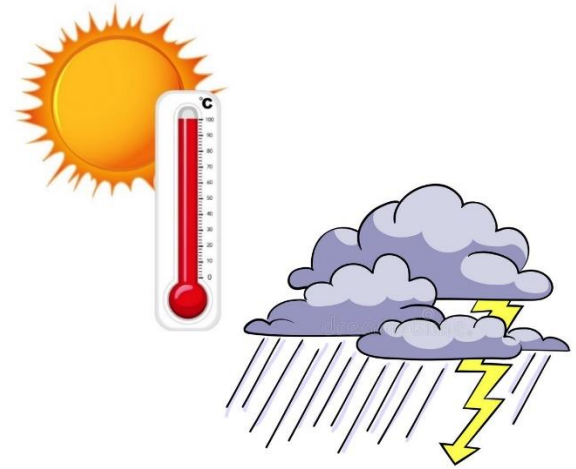
# The Challenge

**Important:**

Deterioration is predictable and ongoing

Deterioration defines the “cost”

It's up to the Board to set a budget that keeps up





# The Challenge

*“Everything we build will decay, but it may last longer if properly maintained. So, here’s a puzzling question... If we build facilities that the natural law causes to decay at fairly predictable rates from birth to burial, why do we not plan for it?”*

*Kevin Folsom*

*Facilities Manager Magazine*

*May/June 2008*



# What Are Reserves?

# Practical Definition

“Money that an association sets aside long periods of time for large repair and replacement projects.”





# The Budget

## Operating Funds

- “Routine” costs
- Unrestricted use
- Expected to be spent in the year collected
- Typical uses: utilities, insurance, management fees, routine maintenance

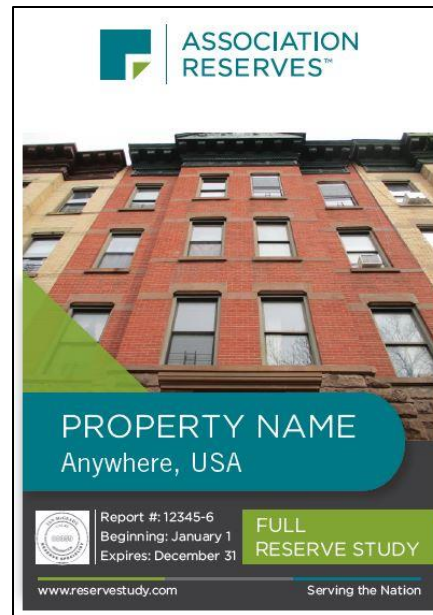
## Reserve Funds

- Infrequent costs
- Restricted use
- Funds accumulate until need arises
- Typical uses: roofing, painting, pavement, HVAC, elevators, etc.

# What is a Reserve Study?

“A budget planning tool which identifies the components a community association is responsible for maintaining, the status of the reserve fund, and provides a stable and equitable funding plan to offset the anticipated future major common area expenditures .”

- Reserve Study Standards  
(RSS), Est. 1998



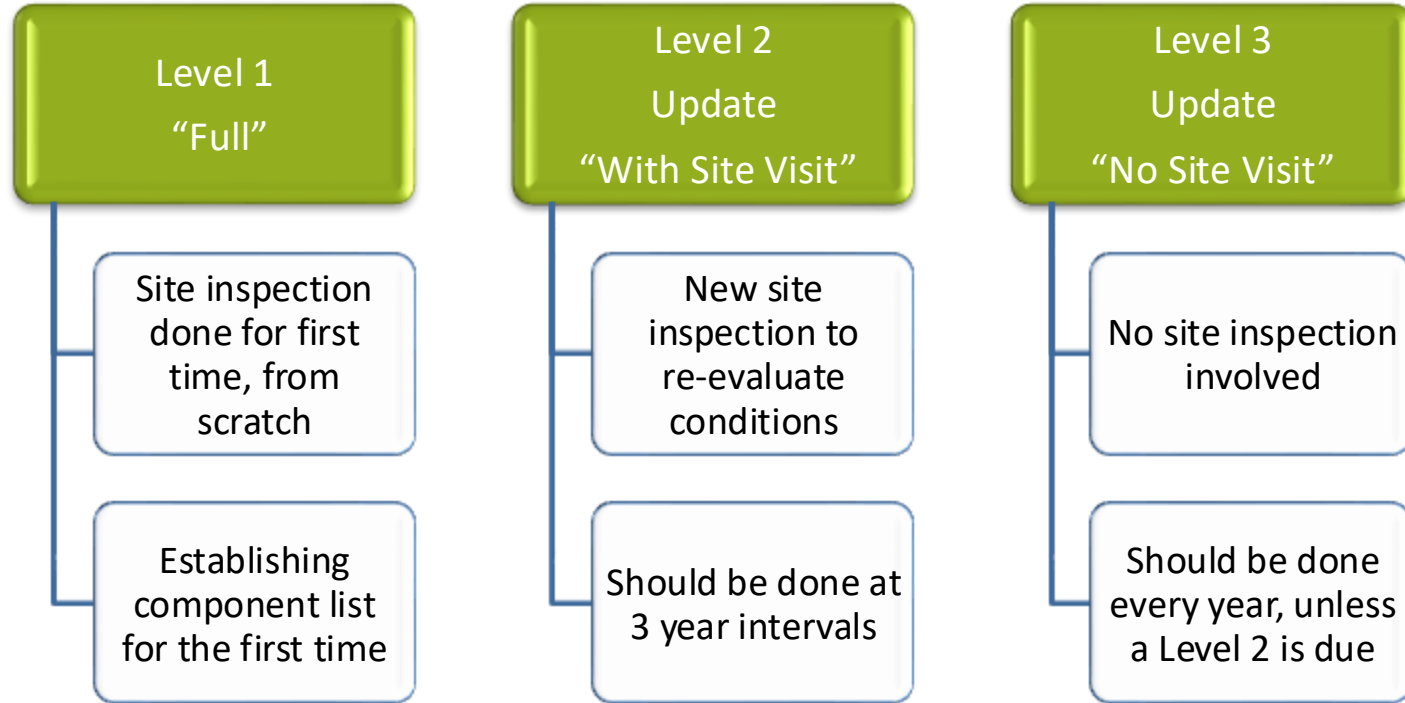


# What is a Reserve Study?



**RESERVE STUDY RESULTS**

# Levels of Service



# Two Parts

*Physical  
Analysis*

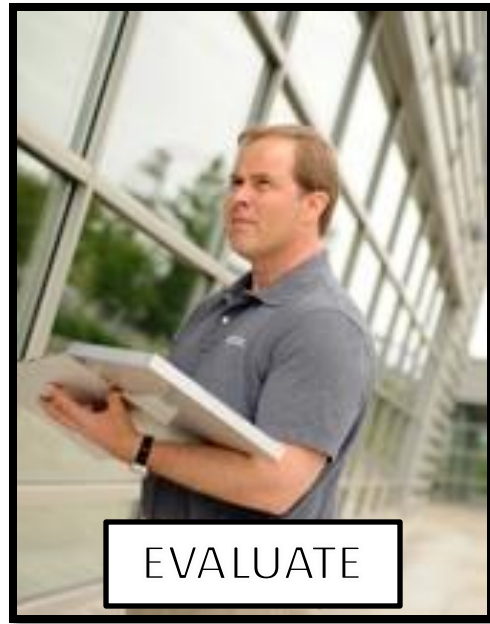
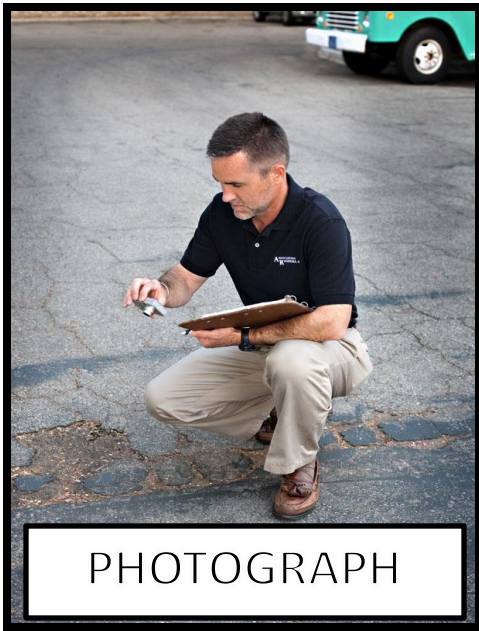


*Financial  
Analysis*



# Part 1

## *Physical Analysis*



# Part 2

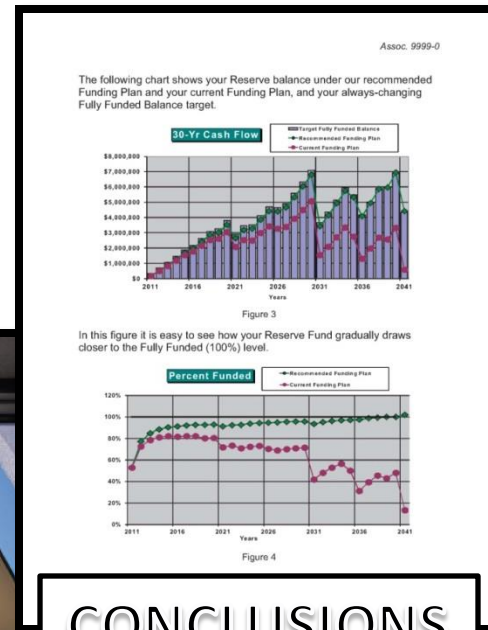
## *Financial Analysis*



RESEARCH



DISCUSSION



# Three Outcomes

Table 1. Executive Summary

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
<b>Sample Condo - Exterior/Garage</b>					
104	Balcony Decks - Re-coat	5	4	\$99,000	\$111,425
105	Balcony Decks - Resurface	28	27	\$346,500	\$769,677
201	Asphalt - Resurface	24	23	\$7,600	\$14,999
202	Asphalt - Seal/Repair	4	3	\$693	\$757
324	Exterior Lighting - Replace	20	19	\$33,613	\$58,940
326	Garage Lights - Replace	30	29	\$4,200	\$9,898
701	Main Entrance Doors - Replace	15	14	\$3,900	\$5,899
702	Garage Gates - Replace	25	24	\$17,500	\$35,574
903	Exterior Furniture - Replace	8	7	\$160,000	\$196,780
1111	Garage Interior - Repaint	14	13	\$19,125	\$28,086
1115	Stucco - Repaint	10	9	\$7,925	\$10,340
1116	Parking Spaces - Restripe	7	6	\$17,200	\$20,538
1130	Helipad - Re-coat	5	4	\$3,125	\$3,517
1202	Pool - Resurface	10	9	\$28,000	\$36,534
1203	Spa - Resurface	5	4	\$8,000	\$9,004
1304	Deck Underlayment - Replace	20	19	\$88,200	\$154,659
1307	Torch-Down Modified Roof - Replace	20	19	\$138,400	\$242,773
1705	Exterior Planters - Waterproof	15	14	\$265,000	\$400,636
1980	Building Envelope - Seal/Waterproof	10	9	\$460,000	\$600,196
<b>Sample Condo - Interior Areas</b>					
326	Exit Signs - Replace	30	29	\$32,000	\$75,410
403	Mailboxes - Replace	25	24	\$26,613	\$54,098
601	Corridor Carpet - Replace	10	9	\$116,000	\$151,354
902	Gym Equip. Accessories - Replace	8	7	\$111,425	\$137,030
903	Lobby Furniture/Artwork - Replace	12	11	\$100,863	\$208,552
903	Office Furnishings/Equip. - Replace	12	11	\$13,400	\$18,895
904	Kitchenettes - Refurbish	10	9	\$10,000	\$13,048
910	240 Lounge - Remodel	12	11	\$125,000	\$173,029
910	Common Area Bathrooms - Remodel	12	11	\$12,000	\$16,611
910	Gym - Remodel	10	9	\$15,000	\$19,572
910	Lobby/Offices - Refurbish	12	11	\$9,000	\$12,488
1110	Corridor Interiors - Repaint	10	9	\$61,200	\$79,852
1110	Stairwell Interiors - Repaint	15	14	\$43,600	\$65,949
1802	Elevator Cabs - Remodel	10	9	\$70,000	\$91,334
<b>Sample Condo - Mechanical/Systems</b>					
302	Emergency Generator - Overhaul	50	49	\$200,000	\$851,244
303	AC Condensing Units - Replace	20	19	\$9,500	\$16,658
303	Fan Coil Units - Replace	25	24	\$18,500	\$37,607
303	Heat Pumps - Replace (Common)	20	19	\$84,000	\$147,295
303	Packaged AC Units - Replace	20	19	\$13,500	\$23,672
304	Variable Frequency Drives - Replace	10	9	\$50,000	\$65,239
305	Stairwell Pressure Fans - Replace	20	19	\$16,500	\$28,933
306	Emergency Supply Fans - Replace	20	19	\$16,500	\$28,933
306	Garage Exhaust Fans - Replace	20	19	\$9,000	\$15,782
306	Garage Supply Fans - Replace	20	19	\$19,000	\$33,317

Association Reserves - Florida, LLC

## 3- Minute Executive Summary

Association: Sample Condo Association Assoc. #: 9999-0  
 Location: Anywhere, FL  
 # of Units: 311  
 Report Period: January 1, 2011 through December 31, 2011

### Results as-of 1/1/2011:

Projected Starting Reserve Balance: .....\$176,000  
 Fully Funded Reserve Balance: .....\$332,480  
 Average Reserve Deficit (Surplus) Per Unit: .....\$503  
 Percent Funded: .....52.9%  
 Recommended 2011 monthly Reserve Contribution: .....\$29,000  
 Recommended 2011 Special Assessment for Reserves: .....\$0  
 Most Recent Reserve Contribution Rate: .....\$26,433

### Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves..... 1.00%  
 Annual Inflation Rate ..... 3.00%

- This is a "Full" Reserve Study (original, created "from scratch"). The information in this Reserve Study is based on our site inspection on July 16, 2010. This Reserve Study was prepared by a credentialed Reserve Specialist (RS).
- Because your Reserve Fund is between 30% and 70% at 52.9% Funded, this represents a fair position. In perspective, associations funded at this level face a moderate risk of special assessments and other cash flow problems. Your multi-year Funding Plan is designed to gradually bring you to the 100% level, or "Fully Funded".
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to increase in the upcoming fiscal year.
- The monthly Reserve contribution amount recommended here should be increased by 4% in each of the next 14 years, followed thereafter by annual increases of 3%. No assets appropriate for Reserve designation were excluded.

Association Reserves - Florida, LLC

#2 Percent-Funded

#3 Funding Plan

#1 Component List



# Outcome #1

## *Component List*

Details of project scope and schedule

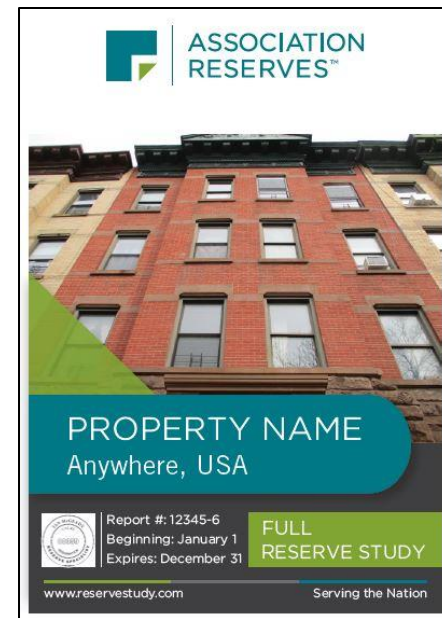
Criteria should remain consistent

Defined by Reserve Study Standards





# What components do we include?





# Reserve Study Standards

## *Three-Part Test*



RESERVE COMPONENT “THREE-PART TEST”



# Reserve Study Standards

## *Three-Part Test*



RESERVE COMPONENT "THREE-PART TEST"

### **This filters out...**

- Indeterminate projects
- "Life of building" projects
- Projects of insignificant cost
- Capital improvements

### **And it means...**

- 25-50 Components typical



Roofing

Painting

Siding Replacement

Pavement Resurfacing

Fencing Replacements

HVAC

Balconies/Walkway Decks

Fire Protection/Life Safety  
Systems

Amenity Area Upgrades

Interior/Lobby Remodeling

Lake and Pond Maintenance

And More



# Reserve Component List

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

**SCOPE**



# Reserve Component List

Description	UL	RUL	Cost
Pool Furniture - Replace	5	0	\$4,600
Pool - Resurface	10	5	\$10,000
Roof - Replace	20	18	\$80,000
Asphalt - Seal	5	2	\$5,000
Asphalt - Resurface	20	2	\$25,000
Building - Repaint	10	1	\$50,000
Elevator - Modernize	20	5	\$80,000
Hallways - Refurbish	8	6	\$24,000

## SCHEDULE



# But not all are equal...

**Typically 60-80% of Reserve  
contributions support \_\_\_\_\_  
(or less) components**





**But not all are equal...**

**Typically 60-80% of Reserve  
contributions support 5  
(or less) components**



# Dominant Components

## **Depends on your construction style**

- Roofing
- Painting
- Asphalt/Roadway
- Siding/Windows/Decks
- Walls/Fencing
- Major Mechanical
- Interior Renovation
- Recreational Components



# What about Capital Improvements?

- Does it currently exist?
- Is it a natural upgrade?



**New**



**Natural Upgrade**



## Outcome #2

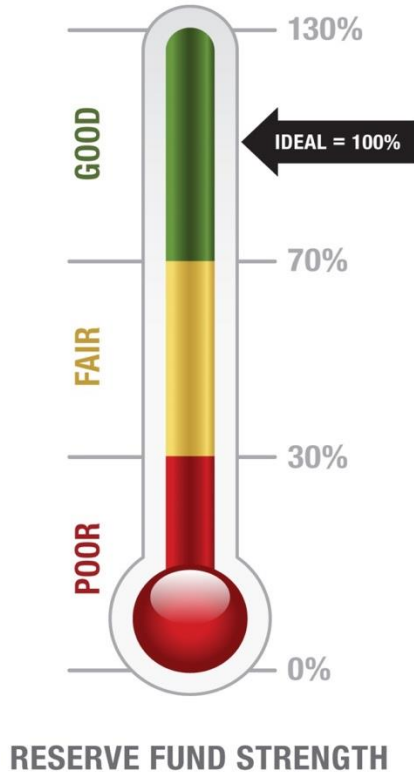
### *Percent Funded*

“Snapshot in time” of financial strength

Measures likelihood of financial problems

Will fluctuate over time

# Percent Funded



- Statistical measuring tool to determine “health”
- Snapshot in time





# How much Should you have?

- If I tell you my association has \$100,000 in Reserves, does that really tell you anything?





## How is it calculated?

How much money you have

÷

How much money you SHOULD have

=

Percent Funded





## How is it calculated?

 How much money you have

÷

How much money you SHOULD have

=

Percent Funded

# How is it calculated?

How much you have...Easy!

- Projected Reserve account balance at start of the next fiscal year





## How is it calculated?

How much money you have

÷



How much money you SHOULD have

=

Percent Funded

# How is it calculated?

Also known as  
the “Fully  
Funded  
Balance”



$\text{FFB} = \$ \text{Accumulated in Deterioration}$



# Fully Funded Balance

$$\frac{\text{Current Age}}{\text{Expected Useful Life}} \times \text{Current Replacement Cost} = \text{Fully Funded Balance}$$

(Summed for ALL Components)



# How much is Enough?

	UL	RUL	Cost	Should Have?
Pool Furn	5	0	\$4,600	



# How much is Enough?

	UL	RUL	Cost	Should Have?
Pool Furn	5	0	\$4,600	\$4,600



# How much is Enough?

	UL	RUL	Cost	Should Have?
Pool	10	5	\$10,000	





# How much is Enough?

	UL	RUL	Cost	Should Have?
Pool	10	5	\$10,000	\$5,000



# How much is Enough?

	UL	RUL	Cost	FFB
<b>Pool Furniture - Replace</b>	<b>5</b>	<b>0</b>	<b>\$4,600</b>	<b>\$4,600</b>
<b>Pool - Resurface</b>	<b>10</b>	<b>5</b>	<b>\$10,000</b>	<b>\$5,000</b>
<b>Roof - Replace</b>	<b>20</b>	<b>18</b>	<b>\$80,000</b>	<b>\$8,000</b>
<b>Asphalt - Seal</b>	<b>5</b>	<b>2</b>	<b>\$5,000</b>	<b>\$3,000</b>
<b>Asphalt - Resurface</b>	<b>20</b>	<b>2</b>	<b>\$25,000</b>	<b>\$22,500</b>
<b>Building - Repaint</b>	<b>10</b>	<b>1</b>	<b>\$50,000</b>	<b>\$45,000</b>
<b>Elevator - Modernize</b>	<b>20</b>	<b>5</b>	<b>\$80,000</b>	<b>\$60,000</b>
<b>Hallways - Refurbish</b>	<b>8</b>	<b>6</b>	<b>\$24,000</b>	<b>\$6,000</b>
<b>Total:</b>				<b>\$154,100</b>



# How much is Enough?

	UL	RUL	Cost	FFB
Pool Furniture - Replace	5	0	\$4,600	\$4,600
Pool - Resurface	10	5	\$10,000	\$5,000
Roof - Replace	20	18	\$80,000	\$8,000
Asphalt - Seal	5	2	\$5,000	\$3,000
Asphalt - Resurface	20	2	\$25,000	\$22,500
Building - Repaint	10	1	\$50,000	\$45,000
Elevator - Modernize	20	5	\$80,000	\$60,000
Hallways - Refurbish	8	6	\$24,000	\$6,000

**Total:**

**\$154,100**



# How much is Enough?

	UL	RUL	Cost	FFB
Pool Furniture - Replace	5	0	\$4,600	\$4,600
Pool - Resurface	10	5	\$10,000	\$5,000
Roof - Replace	20	18	\$80,000	\$8,000
Asphalt - Seal	5	2	\$5,000	\$3,000
Asphalt - Resurface	20	2	\$25,000	\$22,500
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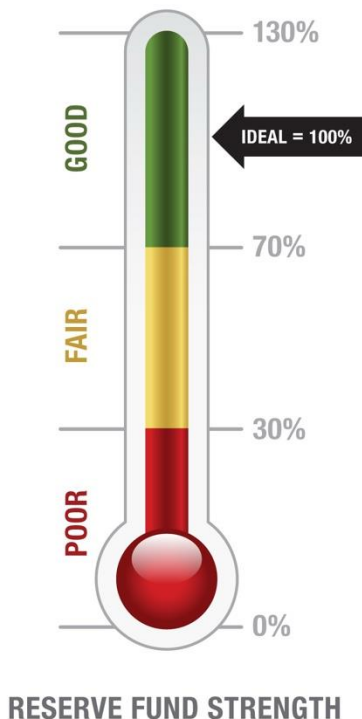
Total:

\$154,100





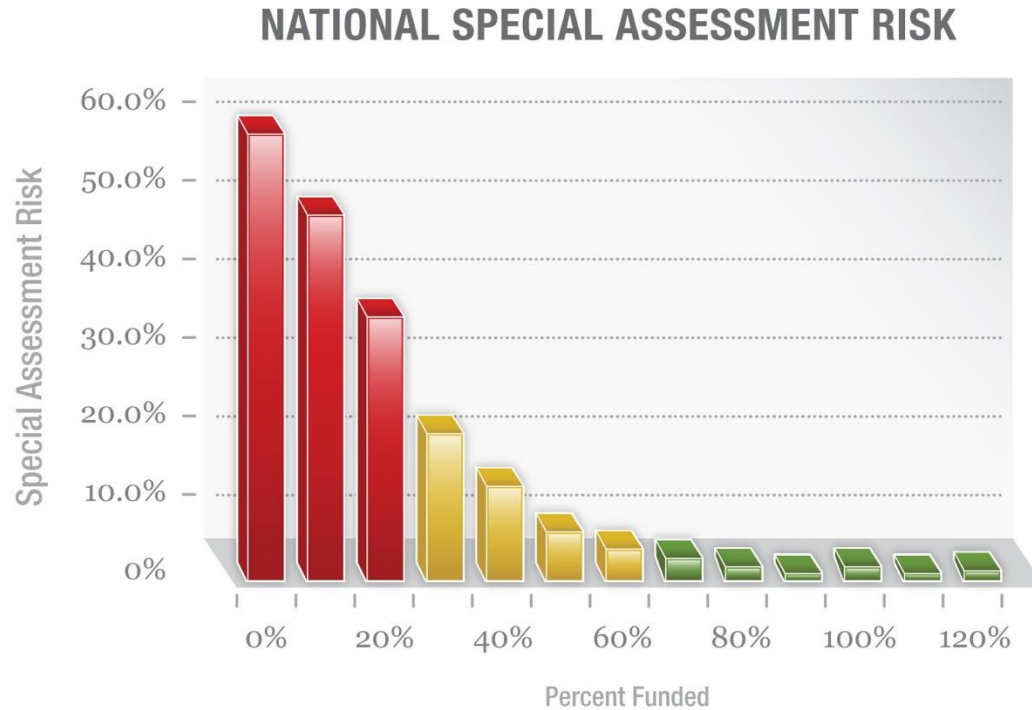
# Percent Funded



Fully Funded: when *value of deterioration* is “in balance” with Fund Balance

	UL	RUL	Cost	FFB
Pool Furniture - Replace	5	0	\$4,600	\$4,600
Pool - Resurface	10	5	\$10,000	\$5,000
Roof - Replace	20	18	\$80,000	\$8,000
Asphalt - Seal	5	2	\$5,000	\$3,000
Asphalt - Resurface	20	2	\$25,000	\$22,500
Building - Repaint	10	1	\$50,000	\$45,000
Elevator - Modernize	20	5	\$80,000	\$60,000
Hallways - Refurbish	8	6	\$24,000	\$6,000
Total:				\$154,100

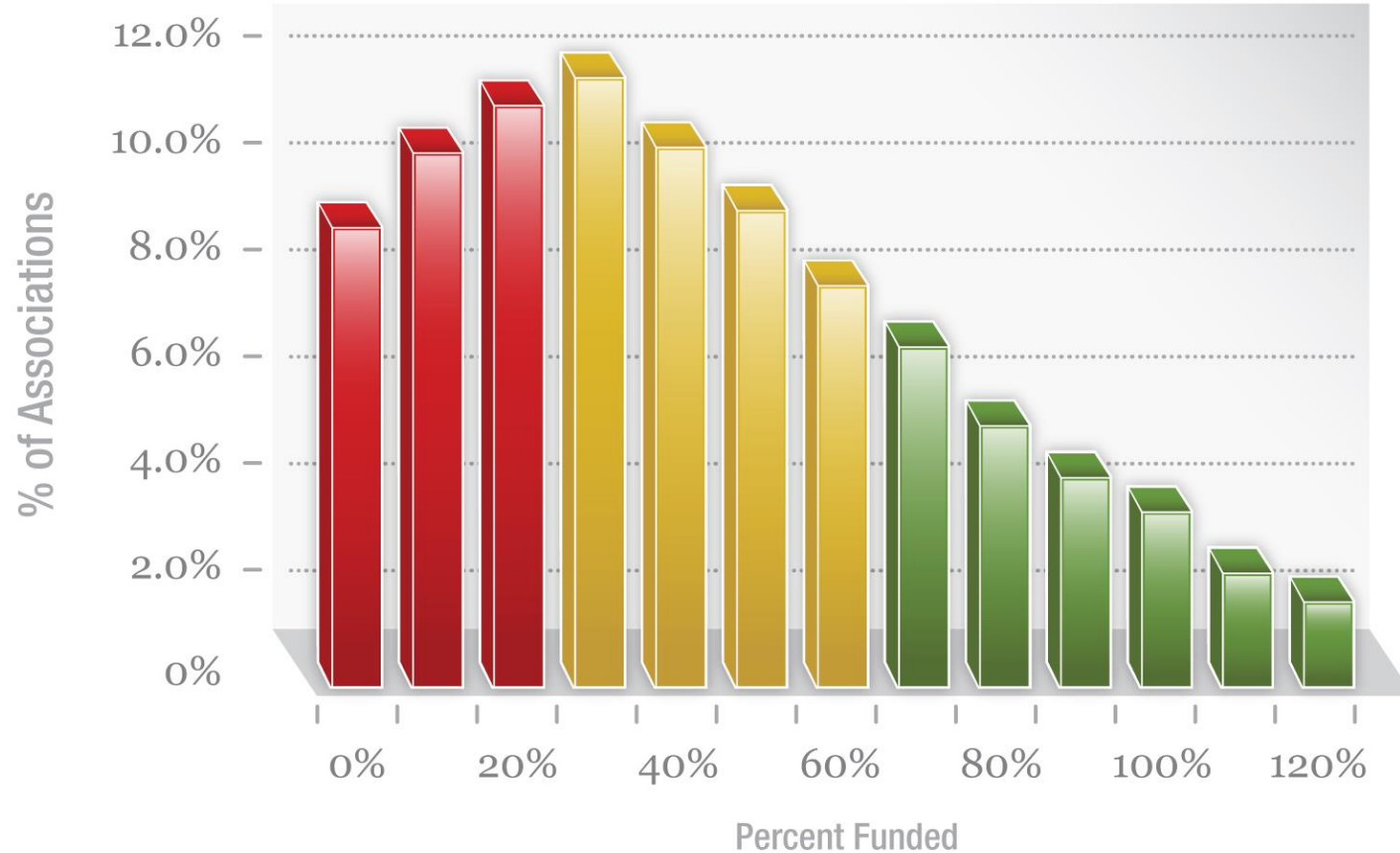
# Do we Have Enough?



Percent Funded is a very strong indicator of special assessment risk



# NATIONAL RESERVE FUND STRENGTH





# Outcome #3

## *Funding Plan*

Review of current budgeted Reserve Contributions

Should match the frequency of regular assessments

May include special assessment recommendation



# Funding Principles



Sufficient Cash

Stable Funding Rate

Evenly Distributed

Fiscally Responsible

**RESERVE FUNDING PRINCIPLES**

# Funding Goals



## **Full**

Target goal of achieving 100% funded by year 30

## **Threshold**

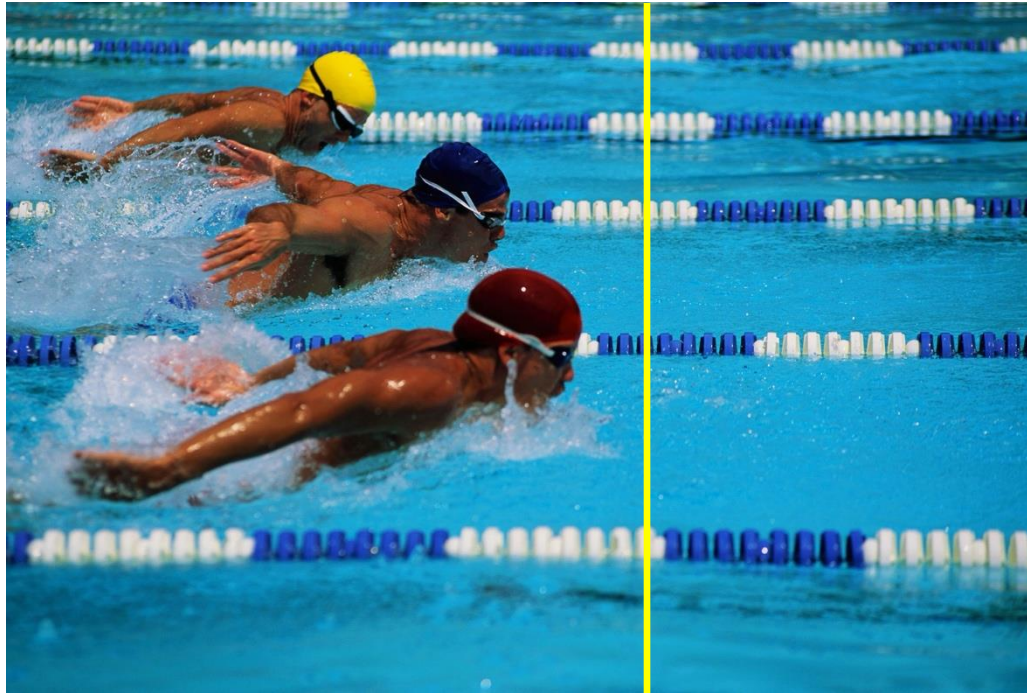
A funding plan that selects a target % funded or cash balance throughout the forecast period

## **Baseline**

A funding plan that never drops below \$0 throughout the forecast period



# Reserve Funding Plan



So...is your association keeping up?



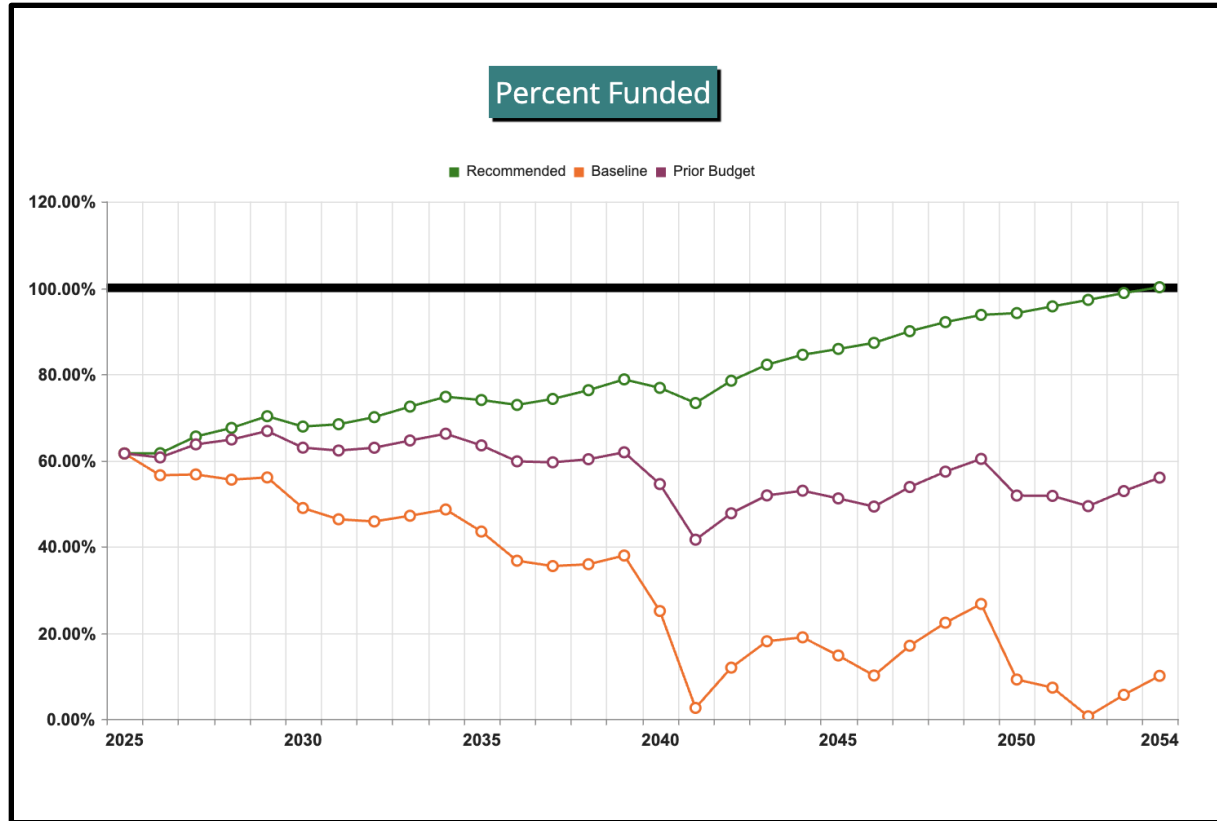
# The Cost of Deterioration

Component	UL	Cost	Cost/yr
Pool Furniture - Replace	5	\$4,600	\$920
Pool - Resurface	10	\$10,000	\$1,000
Roof - Replace	20	\$80,000	\$4,000
Asphalt - Seal	5	\$5,000	\$1,000
Asphalt - Resurface	20	\$25,000	\$1,250
Building - Repaint	10	\$50,000	\$5,000
Elevator - Modernize	20	\$80,000	\$4,000
Hallways - Refurbish	8	\$24,000	\$3,000

The contribution “pace line”

\$20,170

# Funding Plans



Full: more than  
\$20,170/yr

Threshold: approx  
\$20,170/yr

Baseline: less than  
\$20,170/yr

## Part II

### Consequences of Underfunding





# Underfunding Reserves





# Underfunding Reserves

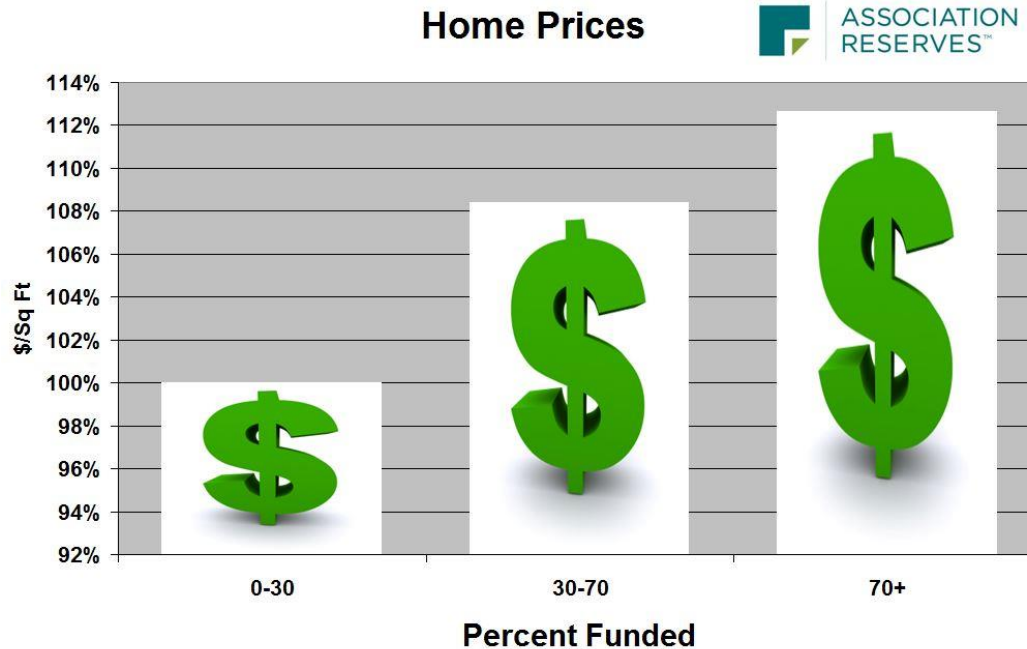
Lower Property Values



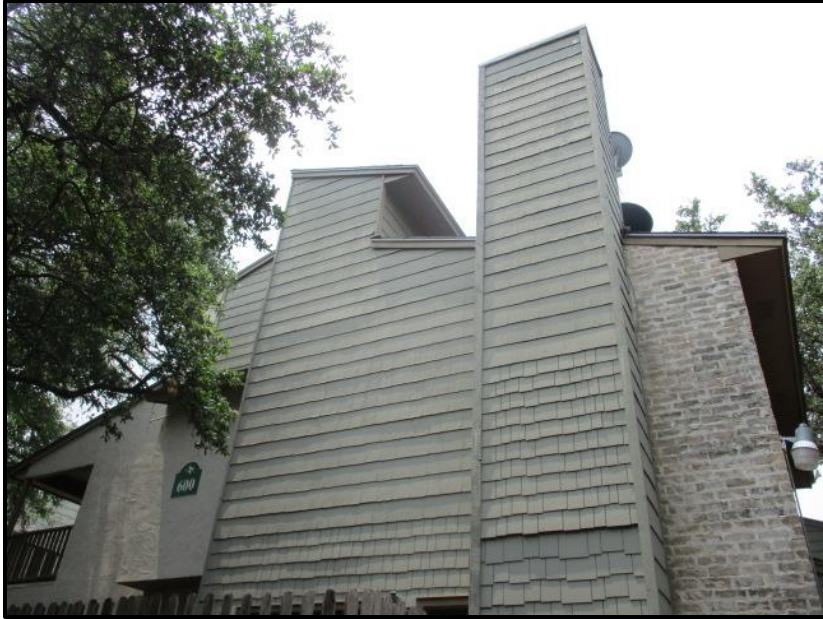


# Lower Property Values

- A well funded property will increase the home value by 12.6%



# Underfunding Reserves



# Underfunding Reserves



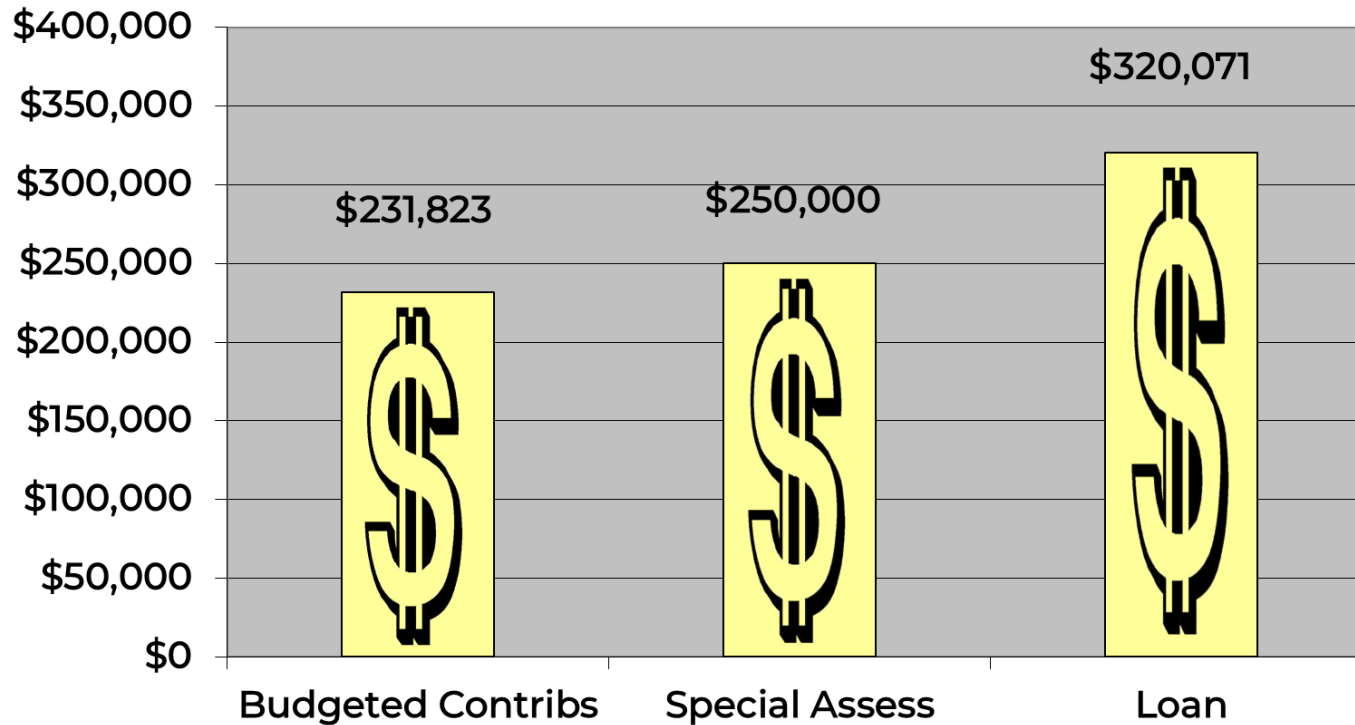


# Underfunding Reserves



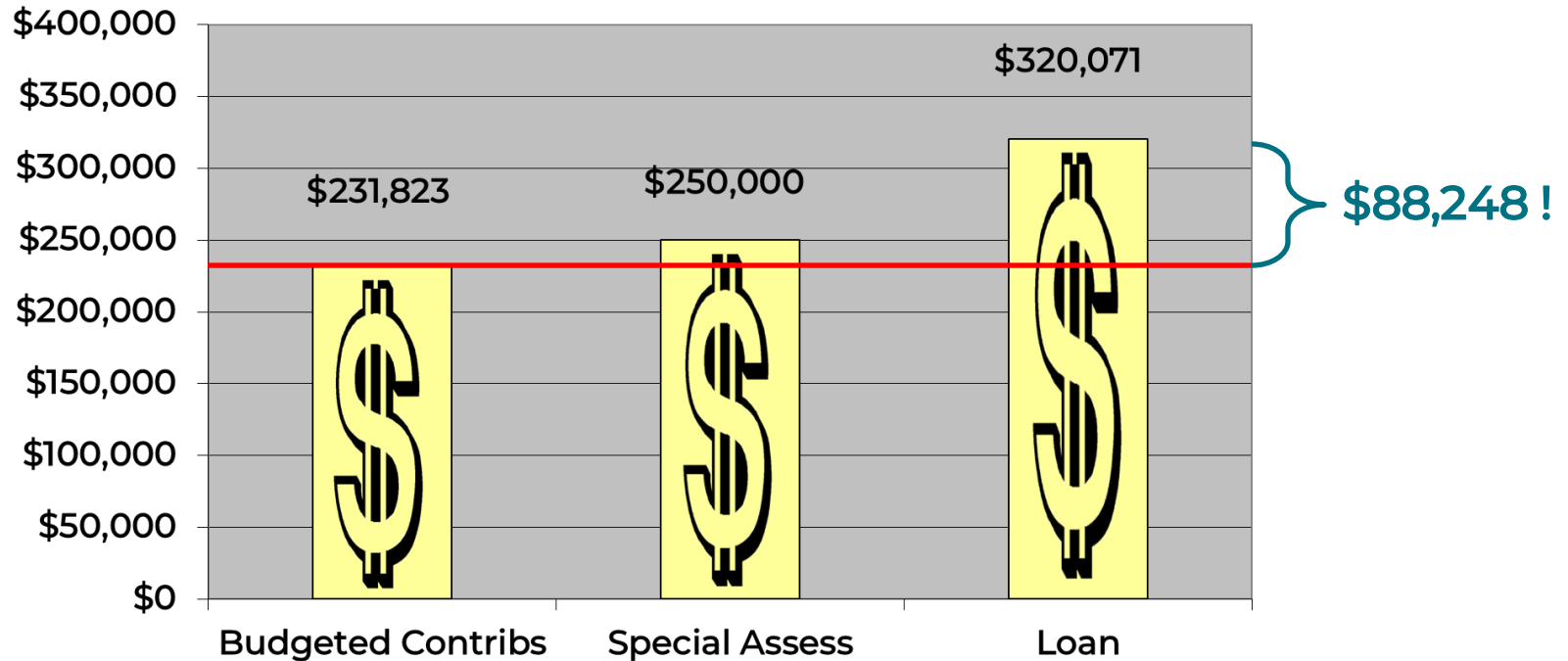


## Funding a \$250,000 Roof





## Funding a \$250,000 Roof





# Special Assessments and Loans

- 1) Unfair to New Residents
- 2) Unfair to Future Residents
- 3) Avoidable
- 4) Disruptive
- 5) Creates distrust of boards and leadership
- 6) No certainty in a SA passing or obtaining a loan

# Part III

## Trends

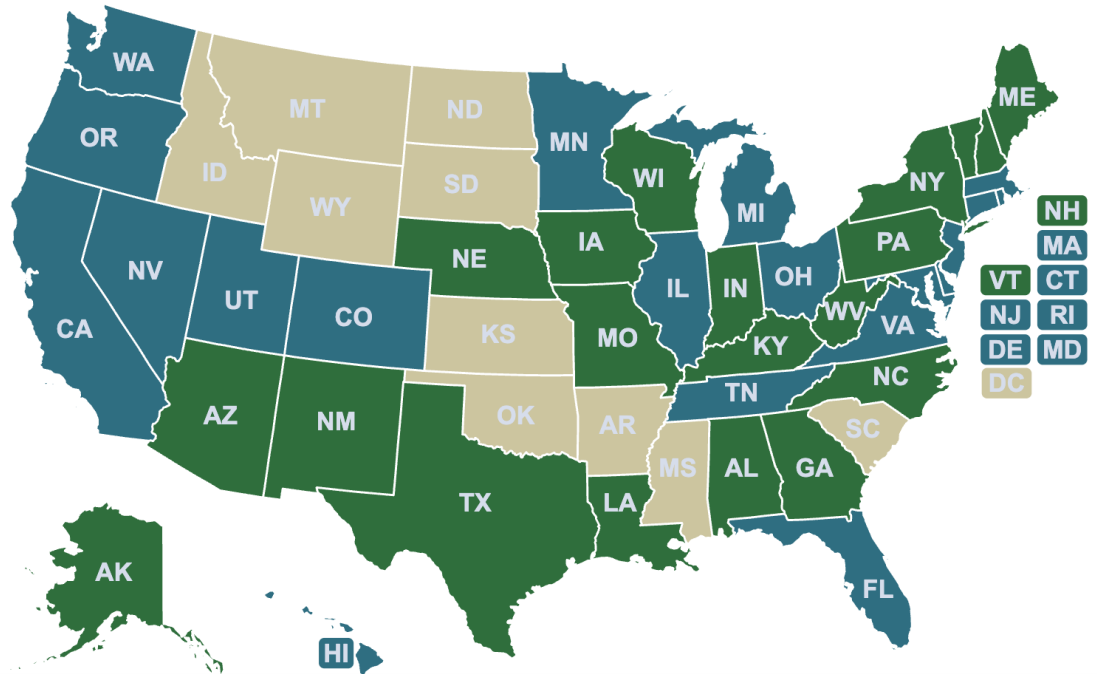




# Reserve Study and Funding Laws by State

- **Blue states** have a reserve study and/or funding requirement.
- **Green states** have statutory guidance for reserves, but do not have a statutory requirement.
- **Khaki states** do not have statutory guidance or a statutory requirement of a reserve study.

Source: CAI



Unit owners associations may adopt and amend budgets for revenues, expenditures, and reserves and collect assessments for common expenses from unit owners (Section 82.102)

Resale statements must include the amount of reserves, if any, for capital expenditures and of portions of those reserves designated by the association for a specified project (Section 82.157).



# Benefits of a Reserve Study

- Avoid Surprises
- Save Money
- Clear Communication on Repair & Replacement Priorities
- Preserve Property Values



# Updating a Reserve Study

- Have a Stable Budget
- Re-evaluate Component and Assumptions
  - Interest and Inflation
  - Component Costs
  - Component Conditions
- Ensure all owners pay their fair share
- New Boards need to be aware



# Things to Remember

- Have a Reserve Study Completed
- Reserve Expenses are Inevitable and Predictable
- Fund Reserve account through regular contributions
- Be proactive, not reactive, in maintenance of common elements
- Reserve Expenses get more expensive when ignored/deferred
- The homeowners are always stuck paying the bill
- Re-evaluate annually, best with an updated reserve study



**Additional Resources at  
[www.ReserveStudy.com](http://www.ReserveStudy.com)**



*Est. 1986*

**ASSOCIATION  
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*Planning For The Inevitable™*

*Over 60,000 Reserve Studies Nationwide*



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